EGD 2014-2018 RATES

EB-2012-0459

VECC COMPENDIUM OF MATERIALS

PANEL 1

Fiscal Year		Board Approved ROE	Before Earnings Sharing: Normalized Actual ROE	Before Earnings Sharing: Actual ROE	After Earnings Sharing: Normalized Actual ROE •	After Earnings Sharing: Actual ROE
		%	%	%	%	%
2000		9.730%	10.829%	8.229%	(a)	(a)
2001		9.540%	10.029%	10.800%	"	"
2002		9.660%	11.805%	8.982%	"	"
2003		9.690%	9.743%	13.140%	"	"
2004		9.690%	10.828%	12.342%	10.660%	12.165%
2005		9.570%	10.343%	10.343%	(a)	(a)
2006		8.740%	10.343%	7.200%	"	"
2007		8.390%	10.722%	11.639%	"	"
2008		8.660%	10.208%	11.867%	9.936%	11.586%
2009		8.310%	11.203%	12.361%	10.261%	11.422%
2010	(c)	8.370%	11.103%	10.248%	10.241%	9.386%
2011	(c)	7.940%	10.378%	10.433%	9.661%	9.719%
2012	(c)	7.520%	9.275%	7.622%	8.900%	7.244%
2013	(b)	8.930%	-	-	-	-

(a) There was no earnings sharing mechanism in these years, therefore ROE results are the same as in the before earnings sharing columns.

(b) The Company is not in a position to provide an estimate of 2013 results.

(c) These are the previously reported actual and normalized ROE's which have not taken account the impact of the accounting error identified in EGDI's September 30, 2013 Financial results.

Witnesses: R. Fischer
S. Kancharla
M. Lister

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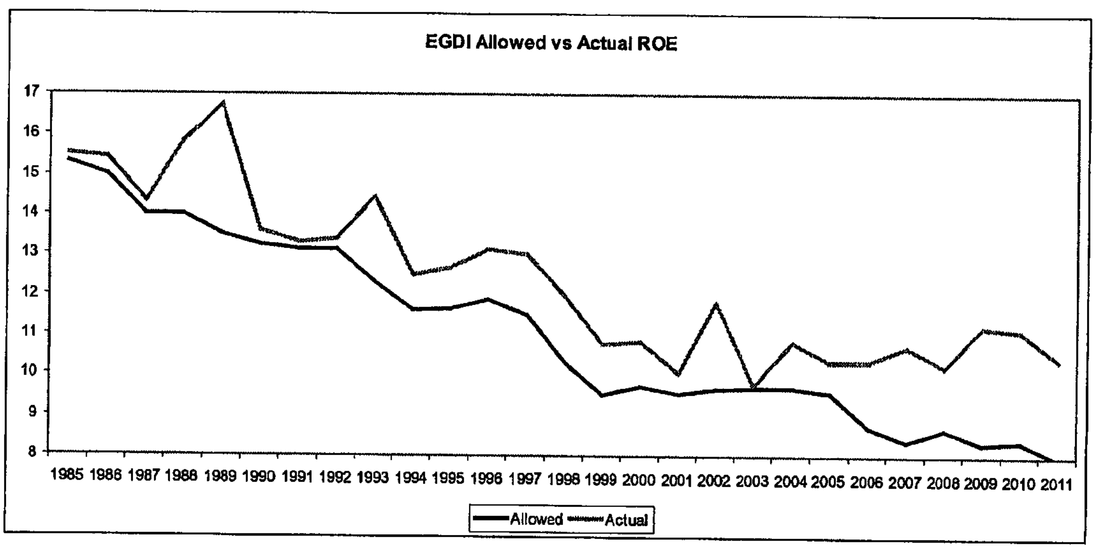
EB-2011-0354
Exhibit L-21
Dr. Booth Evidence
Aug 2012

and increasing this dividend cannot be interpreted as increasing cash flow problems for EGDI, since it is self-imposed. The point is simply that as the largest gas utility in Canada, EGDI is bound to grow with its franchise area, and as a slow growing utility EGDI is largely generating cash, and is relatively low risk. This is explicitly recognised by DBRS as one of the strengths of EGDI, that is, EGDI's strong franchise and large customer base.

However, there is a more obvious way to assess risk, since the dictionary defines risk as the probability of incurring harm-which, in financial terms, means to lose money. For utilities this means the ability to earn the allowed ROE. In EB-2011-0354, Exhibit 1, Issue E2, Schedule 21.1, page 2 EGDI provided this date back to 1990 and in EB-2006-0034, Exhibit I, Tab 24, Schedule 45, page 2, they provided data for 1985-1989. The graph below shows this data for the weather normalised ROE and the allowed ROE.



In not one year since 1985 has EGDI failed to earn its allowed ROE on a weather normalised basis. Consistent with the assessment of DBRS and S&P the only fluctuation from the allowed ROE has been caused by random weather fluctuation. On a factual basis, EGDI has yet to record ***any*** risk that has harmed its shareholders in the last 27 years, despite expert testimony and company evidence that has alleged "increased risks" in various hearings.

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SEC INTERROGATORY #15

INTERROGATORY

Issue A1: Is Enbridge's proposal for a Customized IR plan for a 5 year term covering its 2014 through 2018 fiscal years appropriate?

[A2/9/1, p. 6] Please confirm that, prior to its 1st Generation IRM plan, Enbridge, according to Concentric, underperformed on both TFP and PFP relative to both the whole industry study group and the seven company group. Please comment on whether, in Concentric's opinion, that underperformance was influenced in whole or in part by the fact that Enbridge was, for most of that period, on cost of service ratemaking.

RESPONSE

EGD's PFP growth rate was comparable to the Industry Study Group growth rate (0.44 vs. 0.47, respectively) over the 2000 to 2007 period, but below the TFP growth rate (-0.06 vs. 0.19, respectively) as highlighted below from Figure 1:

Figure 1: TFP and PFP Index Results Table for EGD, the Industry Study Group, and the Seven Company Sub-Group

		Average Annual Growth Rates					
		Industry Study Group		Seven Company Sub-Group		EGD	
		TFP Growth Rate	PFP Growth Rate	TFP Growth Rate	PFP Growth Rate	TFP Growth Rate	PFP Growth Rate
Whole Period	2000-2011	-0.32%	-0.25%	-0.01%	-0.02%	-0.28%	0.50%
Pre-IR	2000-2007	0.19%	0.47%	0.43%	0.74%	-0.06%	0.44%
During IR	2007-2011	-1.22%	-1.52%	-0.78%	-1.33%	-0.66%	0.60%

We note that EGD's predecessor company, Consumers Gas, was on a targeted PBR program over the 2000 to 2002 period, so the Company was not on a cost of service basis for the entire 2000 to 2007 period.

Witnesses: M. Bartos - Concentric
J. Coyne – Concentric
J. Simpson – Concentric

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ENBRIDGE

April 30, 2013

CONFIDENTIAL

ENBRIDGE GAS DISTRIBUTION INC.
AUDIT, FINANCE & RISK COMMITTEE
BOARD OF DIRECTORS

Re: Enbridge Gas Distribution (EGD or the Company) 2nd Generation Incentive Regulation (IR) Plan

Management is seeking approval to file a 2nd Generation IR Plan with the Ontario Energy Board (OEB) before the end of Q2 2013. The OEB has the authority to use any method or technique they consider appropriate to set "just and reasonable" rates, and has made it clear that it expects all utilities, both natural gas and electric in Ontario, to submit rate applications that are designed using IR principles. Recently the OEB established a formal framework for electric utilities that established three alternative IR models that can be used: i) Base year plus 4 Year Price Cap; ii) Annual Index applied to existing rates and no set term, and iii) 5 Year Custom IR determined in a multi-year application review. As a gas utility EGD is not required to abide by the specific IR framework the OEB established for electric utilities. However, this framework represents the most current thinking of the OEB and the Company's IR design has been guided by this framework.

The OEB's application Hearing process includes an Alternative Dispute Resolution process involving registered Intervenors, where some or all of the elements of the application can be negotiated and settled. While the Company will attempt to settle as much of this application as possible, there is no assurance that it will be successful in doing so. Once the settlement process is concluded, the process then continues by way of formal oral Hearing before an OEB panel of Board members which adjudicates and issues a formal Board Decision on all matters. The OEB final Decision on the application is expected by the end of Q1 2014.

1st Generation IR Plan

The 1st Generation IR Plan, which was in effect from 2008 to 2012, was structured as a "Revenue Cap per Customer" model. This model inflated the Company's annual revenues at an agreed-to inflation index less a productivity factor. These revenues were then adjusted annually to take into account actual "customer growth" and forecast volume throughput. This annual adjustment mechanism combined with an average use true up account (which is also being proposed in the 2nd generation plan) provided a level of throughput protection. The model incented the Company by allowing the shareholder to keep a portion of annual earnings in excess of the OEB allowed Return on Equity ("ROE"). Specifically, the shareholder was allowed to retain 100% of annual over-earnings for the first 100 basis points above the allowed ROE and 50% of over-earnings after that.

It is widely viewed that customers and the shareholder both benefited from this plan. In each year of this plan, weather normalized earnings after "earnings sharing" exceeded the allowed ROE by an average of 131 basis points ($18.3 M), while the average annual customer rate after "earnings sharing" decreased by 0.77%. Although cost efficiency was an element in producing those favourable results, most of the excess earnings were derived from reductions in debt interest rates and tax rates, neither of which is expected to be repeated in the near future.

Proposed 2nd Generation IR Plan

EGD has designed its 2nd Generation IR Plan using a "custom model" approach which will cover the period from 2014 to 2016. The "custom model" by its nature has been established for utilities that are facing significantly large multi-year variable investment commitments that exceed historical levels. EGD's 2nd Generation IR Plan is structured to respond to the forecast business needs which includes significant increased capital investments for safety, system integrity and reliability initiatives.

Most notable of these is the fact that EGD is planning to increase its capital investment program over the next 3 years as result of numerous Operational Risk Management initiatives, the GTA and Ottawa Reinforcement projects and the need for a renewed Work and Asset Management System. In fact, EGD's total capital expenditures over the IR term are forecast to be $2.1 billion which represents a 60% increase over the total capital spent during the previous 3 years.

This significant increase in capital spending, translates directly into a higher rate base and annual depreciation expense, which in turn results in an annual revenue requirement that is much higher than what a traditional "inflation less productivity" inflator methodology would provide.

In addition, given that there is uncertainty around the outcome of a number of important integrity studies currently underway and their impact on capital spending requirements beyond 2016, Management concluded that it is appropriate to pursue a 3 year term versus the 5 year term of the 1st Generation IR Plan. The new Plan will also include the tracking of productivity initiatives and operational performance, which is now a mandatory requirement for all electric utilities in Ontario.

Other major elements of the Plan are described below:

1. The 2nd Generation IR Plan establishes the annual revenue requirement for each year of the term based on a "bottom up" forecast of O&M and capital costs, depreciation, debt interest rates, tax rates and ROE. Therefore, aside from the GTA Reinforcement Project where a true-up mechanism is being proposed, the Company will be at risk for any overspending in these areas during the term.

2. An equity to debt ratio of 36/64 will be locked-in for the term, as would the forecast return on equity based on the OEB's existing ROE methodology.

BOMA INTERROGATORY #3

INTERROGATORY

Ref: 2013 Approved Rates

a) Can Enbridge explain the extent to which, if at all, the approved 2013 rates are being used as a starting point for its five year IRM proposal?

b) Please provide the most recent available update for 2013 actuals, and the most recent forecast of expected full year actuals for 2013. Please indicate where it is appropriate to utilize normalized actual results instead of unnormalized actuals and provide such normalized results.

RESPONSE

a) The Board approved 2013 values are being used as a starting point for Property Plant & Equipment ("PP&E"), rate base, and capital structure for the five-year Customized IR term. All other financial items were developed from the ground up based on the updated inputs at the point of time when the regulatory budget was prepared.

b) Please refer to the following interrogatory response for the 9+3 forecast:

- O&M - Exhibit I.B17.EGDI.STAFF.50
- Capital - Exhibit I.B18.EGDI.SEC.86
- Volumes (unnormalized) - Exhibit I.C23.EGDI.VECC.6
- Unlocks - Exhibit I.C21.EGDI.VECC.7

Witness: S. Kancharla

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D. Explanation of year over year variances in the 2014 to 2016 O&M Budget, and

E. Evaluation of the Reasonableness of Enbridge's Overall O&M Budget for 2014 to 2016.

A. O&M Budget Components

6. The Company's total O&M Budget is grouped into five categories: Customer Care/CIS Service Charges ("CC/CIS"), Demand Side Management ("DSM"), Pension and OPEB Costs, Regulatory Cost Allocation Methodology ("RCAM"), and Other O&M. This grouping is consistent with the approach that has previously been presented to the Board.

7. A summary of the overall O&M Budget from 2013 Board Approved to 2016 Budget, sorted by these five categories, is provided in Table1.

Table 1
Enbridge Gas Distribution
Summary of Operating and Maintenance Expense by Category
From 2013 Board Approved to 2016 Budget

Line No.	Categories ($ Millions)	Col. 1 Board Approved 2013	Col. 2 Budget 2014	Col. 3 Budget 2015	Col. 4 Budget 2016	Col. 5 2014 vs. 2013	Col. 6 2015 vs. 2014	Col. 7 2016 vs. 2015
1.	Customer Care/CIS Service Charges	$89.4	$92.6	$96.5	$100.4	$3.2	$3.9	$3.9
2.	Demand Side Management ("DSM") (1)	31.6	32.2	32.8	33.5	0.6	0.6	0.7
3.	Pension and OPEB Costs	42.8	37.2	33.8	30.9	(5.6)	(3.5)	(2.9)
4.	Regulatory Cost Allocation Methodology ("RCAM")	32.1	35.3	34.0	33.8	3.2	(1.3)	(0.2)
5.	Other O&M	219.2	228.0	231.5	241.0	8.8	3.5	9.5
6.	Total Net Utility O&M Expense	$415.1	$425.3	$428.5	$439.5	$10.2	$3.2	$11.0

(1) 2013 DSM reflects the final Board approved amount of $31.6M

Witnesses: S. Kancharla
R. Lei
A. Mandyam
M. Torriano

BOMA INTERROGATORY #2

INTERROGATORY

Can Union provide a comparison showing the amount of money (over and above Board approved revenue requirement for 2013) that it proposes to recover from ratepayers over the five year plan period (the years 2014-2018), compared to what it would recover if it were to adopt the five year Union IRM Plan, recently agreed by the parties in a Settlement Agreement (EB-2013-0202), and applied the elements of that plan to its approved 2013 rates?

RESPONSE

Please see the table below:

Allowed Revenues (Net of Gas Cost)

$ Millions	2013	2014	2015	2016	2017	2018
	Board Approved					
Customized IR (As applied for)	1,021	1,012	1,058	1,171	1,227	1,286
Incremental over 2013 board approved		(10)	37	149	205	265
Approximation of Union IRM	1,021	991	1,025	1,105	1,136	1,173
Incremental over 2013 board approved		(31)	4	84	115	151

Assumptions for 'Approximation of Union IRM':

- Escalation factor assuming GDPIPI of 1.7%, with 60% productivity factor
- Revenue cap per customer Model
- Y factor treatment for GTA and Ottawa project
- DSM, CIS/Customer Care, Pension cost and carrying cost of Gas In Storage as flow through items
- Adjustment for reduction in depreciation expense with SRC in 2013 base
- Factor in cost of capital and tax impact of site restoration cost adjustment

Allowed Revenue incremental to that approved by the Board for 2013 averages $129 million during each year of the IR term. The increase in Allowed Revenue is mainly a result of the rate base growth due to increased forecast safety and integrity capital spending and expected increases in forecast Allowed ROE.

Witnesses: R. Fischer
S. Kancharla

Enbridge's Customized IR plan sets out Allowed Revenue amounts for each year to allow the Company to safely and efficiently operate its business and have the opportunity to earn the Board-approved level of return. Adoption of Union's IRM plan would result in forecast annual average increases of Allowed Revenue of about $65 million, about one half of that required by Enbridge to provide it with a reasonable opportunity to earn its Allowed Return. Clearly, Union's plan will not work for Enbridge's circumstances.

Witnesses: R. Fischer
S. Kancharla

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SEC INTERROGATORY #5

INTERROGATORY

Issue A1: Is Enbridge's proposal for a Customized IR plan for a 5 year term covering its 2014 through 2018 fiscal years appropriate?

Please provide a table that sets out forecasts of the Applicant's allowed distribution revenues, deficiency or sufficiency, and percentage rate increase/decrease for each year from 2014 to 2018, calculated on the assumption that rates are set on the basis set out for Union Gas in EB-2013-0202, Exhibit A, Tab 2, as approved by the Board. Please state explicitly any assumptions used by the Applicant (e.g. inflation rates) in calculating the amounts requested.

RESPONSE

The Assumptions used to generate the scenario described in the question above include the following:

Assumptions for 'Approximation of Union IRM':
- Escalation factor assuming GDPIPI of 1.7%, with 60% productivity factor
- Revenue cap per customer Model
- Y factor treatment for GTA and Ottawa project
- DSM, CIS/Customer Care, Pension cost and carrying cost of Gas In Storage as flow through items
- 2013 Depreciation Rate

Using these assumptions, EGD has calculated the resulting revenues that would be generated for each year over the 2014 to 2018 period. The table below sets out these revenues, as well as the Allowed Revenues excluding the depreciation rate changes and SRC proposal impacts and calculates the difference between them as the resulting implied deficiency for each year.

Witnesses: K. Culbert
R. Fischer
A. Kacicnik
M. Lister

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Allowed Revenues (Net of Gas Cost)						
$ Millions	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	Board Approved					
Customized IR (Excluding Depreciation & SRC)	1,021	1,073	1,114	1,223	1,271	1,314
Approximation of Union IRM	1,021	1,045	1,074	1,150	1,176	1,201
Difference (Implied Deficiency)		(28)	(40)	(72)	(95)	(113)
Cumulative Difference		(28)	(67)	(112)	(167)	(208)

Finally, the estimated rate impacts associated with the revenues calculated above for "Approximation of Union IRM" are depicted below.

Estimated rate impacts for the 2014 to 2018 period are shown in the table below:

Bundled Services

Rate Class	Col. 1 2014	Col. 2 2015	Col. 3 2016	Col. 4 2017	Col. 5 2018
1	0.3%	2.6%	3.4%	1.0%	1.0%
6	0.2%	1.9%	2.3%	0.8%	0.8%
100	0.0%	0.0%	0.0%	0.0%	0.0%
110	0.1%	0.8%	1.0%	0.3%	0.3%
115	0.0%	0.5%	0.7%	0.2%	0.2%
135	0.0%	0.6%	0.9%	0.3%	0.3%
145	0.1%	0.9%	1.0%	0.4%	0.3%
170	0.0%	0.5%	0.6%	0.2%	0.2%
200	0.0%	0.6%	0.7%	0.2%	0.2%
Unbundled Services					
125	0.2%	2.1%	10.0%	9.9%	9.9%
300	0.2%	2.1%	10.0%	9.9%	9.9%

Witnesses: K. Culbert
R. Fischer
A. Kacicnik
M. Lister

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SEC INTERROGATORY #20

INTERROGATORY

Issue A1: Is Enbridge's proposal for a Customized IR plan for a 5 year term covering its 2014 through 2018 fiscal years appropriate?

[A2/9/1, p. 16] Please describe what analysis, if any, Concentric did to determine if, based on its actual bond maturities and new borrowing needs over the 2014-2018 period, the costs of debt for Enbridge would follow a similar pattern of increase over that period.

RESPONSE

Concentric considered both the cost of capital and growth in ratebase in its analysis provided in Section VII of its report (beginning on p. 54). The costs of capital included in the analysis (for medium and long term debt, short term debt, preference shares and common equity) were provided by Enbridge. The debt costs included the Company's projections for maturing debt and new debt at market rates. The table below summarizes those inputs. As can be seen, despite the projected increase in debt rates, the average cost rate for medium and long term debt is actually declining over the 2013 to 2016 period as older more expensive securities are replaced with lower cost securities, but due to the substantial growth in rate base, the revenue requirement impact grows by 26% over this period (from $142.8 MM to $179.6 MM). It is the increase in capital investment that creates the mismatch between revenues and costs under a standard I-X program for EGD over the period, more so than the changes in the cost rates for each capital component.

Witnesses: M. Bartos – Concentric
J. Coyne – Concentric
J. Simpson – Concentric

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> properties of an ECM encourage companies to continue to make cost saving investments near the end of the PBR term. The Commission agrees with ATCO's proposal for an upper limit for earnings that can be carried over and finds the limit of 0.5 per cent to be reasonable. Accordingly, the Commission approves the ATCO companies' ROE ECM for inclusion in the ATCO companies' PBR plans. If any of the other companies wish to submit the same ECM in their PBR plans, they may do so in their compliance filings.[3]

14. The Company agrees with the intent of an ECM, as articulated by the AUC. EGD notes that the intent of the Alberta ECM is to strengthen incentives for utilities' IR plans. More specifically, this type of mechanism is intended to reduce the disincentive for a utility to invest in the latter years of an IR plan. That disincentive arises, ultimately, because the benefits to be derived by the productivity investment will be clawed back for the benefit of ratepayers at rebasing. As such, with a shorter duration for enjoyment of the benefits (i.e., in the latter years of the plan) the incentives for the utility to invest in productivity-enhancing initiatives is weakened. In some cases, this could lead to a situation where full recovery of the costs of the productivity-enhancing investment would not be achieved during the term of the IR plan.

15. The Company does note, however, that there may be some issues with the FortisBC and Alberta mechanisms that wouldn't necessarily correlate with the objectives for a SEIM as laid out above.

16. There are two main issues with the FortisBC proposal as EGD sees it. The first is that the mechanism doesn't directly incent long term efficiencies, and in fact, may strengthen the incentive to undertake short-term, temporary, cost cutting. That is, the utility would be able to simply defer costs until rebasing and still stand to gain an

[3] Alberta Utilities Commission, Rate Regulation Initiative, Distribution Performance Based Regulation, September 12, 2012, at para. 775.

Witnesses: R. Fischer
S. Kancharla
M. Lister
A. Mandyam
P. Squires

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Example 1:

- *Step 1*:

  Average Actual ROE = 9.5%

  Average Allowed ROE = 10.0%

  Reward Potential = (9.5% - 10.0%) = -0.5%

  EGD does not qualify for the reward.

Example 2:

- *Step 1*:

  Average Actual ROE = 10.5%

  Average Allowed ROE = 10.0%

  Reward Potential = (10.5% - 10.0%) = 0.5% * 50% * 50% = .125%

  ROE Premium = Min[0.125%, 0.5%] = 0.125%

  The ROE Premium would then be converted into a dollar amount.

  2019 Utility Rate Base * 2019 Utility Equity Ratio * 0.125%.

  Assume 2019 Utility Rate Base = $4 billion

  Assume 2019 Equity Ratio = 36%

  Therefore, the dollar value of the ROE premium for 2019 would be $1.8 million (4 billion * 36% * 0.125%).

  The same amount would be applied for 2020.

- *Step 2*:

  EGD will file information to establish entitlement to the SEIM reward.

Witnesses: R. Fischer
S. Kancharla
M. Lister
A. Mandyam
P. Squires

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UNDERTAKING TCU1.14

UNDERTAKING

Technical Conference TR 1, page 155

EGDI to calculate whether, if the average ROE is 124.5 basis points above allowed ROE during the IRM term, then the effect of the SEIM is for the ratepayers to give back all or more than all of the earnings sharing that they received.

RESPONSE

As stated at Exhibit A2, Tab 11, Schedule 3, the purpose of the SEIM is to include stronger incentives for the Company to implement long-term sustainable efficiencies which survive beyond the IR term and to encourage productivity investments in the later years of the IR term. These sustainable efficiencies will benefit ratepayers in terms of delivering safe and reliable energy to customers at rates lower than they would otherwise be beyond the IR term. ROE is only used as an input to calculate the potential SEIM reward. The SEIM reward will not be available to the Company unless it can meet the productivity and quality of service criteria as detailed on page 7 at Exhibit A2, Tab 11, Schedule 3.

As illustrated in the table below, the potential SEIM reward is calculated using the actual, after earnings sharing ROE. As a result, with an average overage of 124.5 bp (and including specific assumptions), the ESM amounts to ratepayers are approximately $1.2 million greater than the potential SEIM reward.

If this very specific example were to unfold, ratepayers would receive the benefit of $15.0 million in earnings sharing plus an amount greater than $13.8 million in base rates provided the SEIM reward can be justified with long-term, sustainable benefits and service quality and performance have not suffered during the IR term.

Witnesses: S. Kancharla
R. Small

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ESM Calculations

($ Millions)	2014	2015	2016	2017	2018	Total
Rate Base	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	
Equity 36%	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0	
Allowed ROE	10.00%	10.00%	10.00%	10.00%	10.00%	
Actual ROE before sharing	11.245%	11.245%	11.245%	11.245%	11.245%	
Net overearnings after 100bp deadband	4.4	4.4	4.4	4.4	4.4	
Gross overearnings (tax rate 26.5%)	6.0	6.0	6.0	6.0	6.0	
ESM amounts returned to ratepayers	3.0	3.0	3.0	3.0	3.0	15.0
Actual ROE after sharing	11.122%	11.122%	11.122%	11.122%	11.122%	

SEIM Calculation

2014 - 2018 average actual ROE after sharing	11.122%	
2014 - 2018 average allowed ROE	10.000%	
Variance	1.122%	
ROE premium (Variance * 50% * 50%)	0.281%	(which is less than 0.5%)
2019 rate base	5,000.0	
2019 equity component of rate base	1,800.0	
Annual SEIM reward before gross-up for taxes	5.0	
Annual grossed-up SEIM reward	6.9	
Total SEIM reward (2 X Annual Reward)	13.8	

Witnesses: S. Kancharla
R. Small

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COST OF CAPITAL TREATMENT

1. This evidence sets out Enbridge's proposal and rationale for the treatment of the Cost of Capital in this Customized IR plan.

2. Enbridge has considered each of the following areas with respect to this proposal:
   a. Capital structure through the IR term
   b. Return on Equity ("ROE") through the IR term
   c. Cost of Capital for ESM purposes

Capital Structure

3. Through this Application, Enbridge proposes to fix the capital structure ratios that will apply through the term of the Customized IR plan for ratemaking purposes.

4. As a result of the 2013 Test Year Rebasing case (EB-2011-0354), the Board determined that Enbridge's equity ratio should remain at 36%. Enbridge proposes to maintain this equity ratio for ratemaking purposes for the duration of the IR term.

5. For the 2014 to 2018 period, Enbridge's use of long term debt, short term debt, and /u
preferred shares during the IR term have been developed according to the pace of required capital spending and the timing for cash flow needs. The financing plan for 2014-2018 is filed at Exhibit E1, Tab 2, Schedules 1 and 2, and sets out the /u
determination of the amounts, timing, and costs for each of long term debt, short term debt, and preferred share financing, and results in the following capital structure derived percentages:

Witnesses: K. Culbert
R. Fischer
M. Lister
M. Suarez-Sharma

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Capital Structure Component	2014 Weight	2015 Weight	2016 Weight	2017 Weight	2018 Weight
Equity	36%	36%	36%	36%	36%
Long term debt	59.37%	61.41%	61.31%	61.49%	61.28%
Short term debt	2.34%	0.49%	0.87%	0.76%	1.02%
Preferred shares	2.29%	2.10%	1.82%	1.75%	1.70%

6. It should be noted that Enbridge's acceptance of the 36% for the equity ratio for the duration of the IR term is not an acceptance that this ratio meets the Fair Return Standard. While Enbridge is implementing this equity ratio for the duration of the Customized IR term, the Company reserves its rights to apply, at a later date, for an appropriate equity ratio that meets the Fair Return Standard in conjunction with a given ROE level and to take any position deemed appropriate if a generic Cost of Capital proceeding is convened.

7. Where the required level of capital spending is altered for purposes of determining eventual approved rates, the planned ratios of long and short term debt may be affected which could require a re-forecast of planned debt issuances.

ROE through the IR term

8. For ratemaking purposes, Enbridge proposes to include forecasted ROE levels for each year of the IR plan into the determination of Allowed Revenue for each fiscal year of the IR term. That is, a different ROE level will apply for each of 2014 to 2018, inclusive.

9. The forecasted ROE levels for 2014 through 2018 can be found at Exhibit E2, Tab 1, Schedules 1 and 2. /u

Witnesses: K. Culbert
R. Fischer
M. Lister
M. Suarez-Sharma

10. It is appropriate and reasonable to include the ROE forecasts directly into the derivation of the Allowed Revenue, as the cost of capital is a legitimate utility cost. In a traditional 'I-X' framework, forecast cost of capital is typically not included as it is believed that the inflation factor provides, at least in part, some compensation for changes in interest rates, which otherwise affect the level of Allowed ROE. In this proposed Customized IR approach, however, there is no explicit forecast of inflation, only a forecast of the costs that contribute to the Allowed Revenue. As such, it is reasonable that the Allowed Revenue forecasts should include representation for the forecast costs of capital that the utility will bear during the IR term.

11. EGD also considered an approach that would float the ROE, so that any updated ROE value would be used each year. That ROE value would be determined annually according to the Board Approved Formula at the time that the Formula output is known (i.e., approximately November of each year).

12. This alternative has the advantage of annually representing a true reflection of the cost of capital into rates, but the disadvantage of being another item for update and adjustment through the IR term. There is also difficulty with the timing of this approach, since a November date for ROE updates would make it a challenge to implement rates by January 1st of the following year. Given these disadvantages, Enbridge believes this alternative is not best suited to incentive regulation.

<u>Cost of Capital for ESM purposes through the IR term</u>

13. Discussion of the Company's ESM proposal can be found at Exhibit A2, Tab 7, Schedule 1. Enbridge proposes that if its actual ROE is more than 100 basis points above the Board's ROE Formula for that year, then it will equally share any

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earnings above that level with ratepayers, subject to the Off Ramp Criteria at 300Bp or greater ROE (Exhibit A2, Tab 6, Schedule 1).

14. As explained in that evidence, Enbridge proposes that the Board's ROE Formula used to calculate the annual ESM amount should be annually adjusted according to the ROE formula set out in the Board's 2009 Cost of Capital report.

15. Enbridge proposes leaving its equity ratio unchanged for the purposes of calculating the amounts for ESM. Enbridge will leave the equity ratio unchanged at 36% even if there is a change to this amount as a result of any Cost of Capital review. While it would be ideal to calculate ESM on the basis of the most up to date cost of capital parameters in order to obtain a true reflection of the Fair Return Standard, this would be very difficult to implement. Changing the equity ratio for ESM purposes relative to what is used for ratemaking purposes would require the Company to estimate what financing would otherwise have taken place had rates been set to use an equity ratio different from 36%. This would require estimates for the amounts, timing, and costs of both short-term and long-term debt, and would therefore introduce layers of complexity, and potential controversy, into the calculation of earnings sharing.

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